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SUBJECT: South Africa: Minerals and Energy Newsletter `THE ASSAY' - Issue 1, January 2005

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This cable is not for internet distribution.

¶1. (U) Introduction: In January 2004, the Economic Section of Embassy/Pretoria produced the first issue of a new monthly newsletter called `The Assay'. The purpose of this monthly newsletter is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

Key

¶2. (U) Key to some of the terminology and abbreviations used is given to facilitate understanding.

BEE (Black Economic Empowerment) - the scheme whereby the South African Government promotes black participation in business.

- t = tons,
- t/d = tons per day,
- c/l = cents per liter,
- t/m = tons per month,
- t/y = tons per year,
- oz = troy ounces (31.1 grams),
- cmg = centimeter grams,
- mcf = million cubic feet,
- tcf = trillion cubic feet,
- R = SA currency (rand),
- MW = megawatts,
- kt = thousand tons,
- bbl/d = barrels per day,
- MW = megawatts,
- PGM = platinum group metals.

NEWS

Aquarius Platinum Lists on JSE

On December 8, after nearly two years in the offing, Aquarius Platinum Ltd. (Australia) became the first foreign company to list on the main board of the JSE Securities Exchange in South Africa, following the relaxation of exchange control regulations last year. The move means that Aquarius may now raise capital in South Africa. The listing will enable the Savannah Resources consortium, which has a 29.5% stake in subsidiary Aquarius Platinum (South Africa), to convert its holding into JSE-traded shares in the parent company. Savannah originally paid around $135 million for its stake in Aquarius. Aquarius Platinum wholly owns the Kroondal and Marikana platinum mines in South Africa, has a 50% interest in the Mimosa platinum mine in Zimbabwe, and is developing the $122 million Everest South platinum mine in South Africa. Individual South Africans may now buy shares in Aquarius on the JSE without the $120,000 foreign exchange control restriction they would otherwise face. More foreign listings are expected during 2005, mainly from Australian and Canadian mining companies.

FERRO-CHROME

Environmental Resistance to Tata Steel

Tata Iron and Steel Company (TISCO) plans to construct a $100 million, 240,000 t/y ferro-chrome smelter at Richards Bay. However, local environmental groups oppose the project, arguing that it will place undue stress on the environment and the area's limited infrastructure. Mondi, Anglo American's paper products subsidiary, also opposes the

smelter on the grounds that the pollution is likely to contaminate its paper products, some of which are used for food packaging. Anglo has offered TISCO an alternative site in the area (owned by Anglo) but to date nothing has been decided. TISCO believes that construction would create 1800 jobs and that smelter operations would employ 120 permanent workers.

Cheap electricity and the port had originally attracted TISCO to Richards Bay. Cognizant of the potential difficulties at Richards Bay, however, TISCO has let it be known that it has identified alternative locations in Australia and Canada. If given the go ahead for Richards Bay, TISCO would begin first phase steel production in 2005 and reach full production in 2009. Tata is Asia's first and India's second largest integrated private sector steel company. In 2004, it produced more than 4 million tons of steel.

ENVIRONMENTAL IMPACT ASSESSMENTS

Court Rules Against Government EIA Process

On January 26, the Western Cape High Court ruled that the Department of Environmental Affairs and Tourism (DEAT) must alter Environmental Impact Assessment (EIA) procedures to allow stakeholders to review a final assessment if it contains new information. This was the result of a case filed by Earthlife Africa, an environmental group opposed to the construction of an additional nuclear reactor at Koeberg. Judge Ben Griesel stated that the court's ruling had no bearing on the merits of nuclear energy or the proposed Pebble Bed Modular Reactor (PBMR). DEAT has told the press that it will appeal the judgment on principle, since the ruling has wide ranging consequences for all future EIA's. The PBMR, Ltd. Communications Manager said that the new EIA requirement could delay PBMR's project by 3-12 months, but should not affect the project construction schedule as design and development work continues.

RENEWABLE ENERGY

High Hopes for New Solar Panel

South African scientists at the Rand Afrikaans University (now part of the University of Johannesburg) have developed an innovative solar panel that promises to be cheaper than current silicon-based panels. Researchers hope that this will make solar energy more affordable, particularly for people in rural areas. The university team, under the leadership of Physics Professor Vivian Alberts, has developed an industrial method for producing copper-indium-gallium-diselenide (CIGS) solar panels. A pilot production facility, already in operation, can reportedly produce a 50-watt panel for less than $100.

Alberts believes that large-scale production could bring production costs of CIGS panels to less than U.S. 10 cents per kWh. University planning for a full-scale commercial production plant has been in process for the past 18 months, and is at an advanced stage. If successful, CIGS solar panels may help the South African Department of Minerals and Energy meet its target of 10,000 gigawatt hours of annual electricity production from renewable sources by 2012 (i.e., about 5% of current electricity consumption).

GOLD

Finance Minister Backs IMF Gold Revaluation

On January 17, South African Finance Minister Trevor Manuel said that he supported a British proposal to revalue International Monetary Fund (IMF) gold reserves as part of a plan to reduce developing country debt. Under a 1971 agreement, most of the IMF's gold is currently valued at between $40 and $50 an ounce, about a tenth of the current market price. Proponents of the plan want the IMF to sell gold to developing countries at its historical price, and then repurchase it at current prices. They believe this could raise about $30 billion for debt relief. Speaking on the margins of a consultative meeting of Tony Blair's Commission for Africa in Cape Town, Manuel said that, should revaluation take place, South Africa would want to make sure that most of the benefits accrued to African countries.

COAL

South African Coal Exports Down 5%

South Africa's total coal exports decreased 5%, from 71.5 mt in 2003 to 67.9 mt, in 2004, despite the fact that coal prices were at historical highs. Richards Bay Coal Terminal

(RBCT) reported a decrease of 3.5%, from 68.31 mt in 2003 to 65.94 mt in 2004 - below its 69.0 mt target. Coal exports at the Port of Durban also decreased by 42% in 2004, to 1.05 million tons, due mainly to increased rail tariffs and higher freight rates. Coal exports out of the Matola Coal Terminal in Maputo (Mozambique) decreased by 30% in 2004, to 937,000 tons. Companies pointed to rail bottlenecks and power outages as the primary culprits.

DIAMONDS

Namibia Wants De Beers to Sell Local

Diamdel, a wholly-owned diamond-marketing subsidiary of De Beers, plans to set up trading operations in Windhoek, Namibia as soon as it finalizes an agreement with the Government of Namibia on rough stone supply to Namibian cutters. The Government of Namibia wants to promote the development of a local jewelry industry, including cutting and polishing. Diamdel currently supplies some 500 (mainly small) clients, located in the world's leading diamond centers with rough stones purchased from De Beers' Diamond Trading Co (DTC). This volume represents a fixed proportion of DTC's total sales, the lion's share of which is sold to De Beers' `suppliers of choice' (most of whom are former `sightholders.')

De Beers Raises Rough Diamond Prices by 3%

London-based Diamond Trading Company (DTC), the marketing arm for De Beers, raised the price of diamonds by an average of 3%, as of January 1. This announcement followed three price hikes last year -- two at 5% each and one at 3%. Reasons stated for the price increase included tight supplies and the weak U.S. dollar. The first sale, of ten sales for the year, was held from January 10-14 for the DTC's 84 sight-holder clients. The Government of Botswana stands to gain $70 million in 2005 as it supplies DTC with 70% of its rough diamonds. Botswana's diamond exports in 2003 were 31 million carats, worth a record $2.4 billion. The country relies on the gems for up to 80% of its export income, 50% of its government income, and 35% to 40% of its gross domestic product. De Beers is the world's largest diamond producer and marketer of uncut diamonds. The unlisted company is 45% owned by resources company Anglo American, 40% by the Oppenheimer family, and 15% by the Government of Botswana. The company mines about half its diamonds in Botswana.

New Lesotho Diamond Mine Sparkles

During the past two weeks, the newly reopened Letseng diamond mine in the Maluti Mountains of Lesotho has unearthed four large diamonds - weighing 366 carats in total - that are likely to earn the mine at least $6 million. Letseng's claim to world fame is that, at 3,000 meters above sea level, it is the highest operating diamond mine in the world. However, at 2.5 carats per 100 tons, it also has one of the lowest grades. This is compensated for by the fact that it also produces some of the largest and highest quality stones in the world. Abandoned by De Beers in 1982, the Letseng mine was reopened by a joint venture between South African companies JCI and Matodzi (a BEE company) just over a year ago. The Lesotho Government owns 24%.

OIL

South Africa to Send Oil Technicians to the Sudan

PetroSA, the South African National Oil Company, is to send technicians to the Sudan to determine whether commercially exploitable quantities of oil occur in an exclusive concession, leased under an agreement signed with the Sudanese state oil company, Sudapet. During the last week of December, South African President Thabo Mbeki paid a visit to Khartoum where he met his counterpart, Sudanese President Omar al-Beshir. The two agreed to encourage cooperation in oil exploration. PetroSA also concluded a capacity-building agreement for the development of technical Sudanese staff. On January 4, PetroSA announced that South Africa would send technical personnel to the Sudan to run seismic tests on its allocated oil exploration block, and that Sudan would send personnel to PetroSA for technical training.

FOREIGN BUSINESS

China Increases Involvement in South African Mineral Industry

China recently acquired a controlling interest in the Steelpoort chromite mine in Limpopo Province, which annually

ships 400,000 tons of chrome ore to China for the production of stainless steel. In another transaction, the Chinese industrial consortium, CITIC-ACRE, was awarded the major contract, worth $50 million, for the construction of Ispat Iscor's (South Africa's major steel producer) new $75 million coke oven battery expansion project and associated gas plant, at its Newcastle works in northern Kwazulu-Natal. Areas to watch: China is investigating acquiring SASOL oil-from-coal technology.

HEALTH and SAFETY

Fire at SASOL's NATREF Refinery

On January 23, a gas fire broke out in one of the storage tanks at the NATREF refinery in Sasolburg during shutdown clean-up operations. Seventeen people were exposed to the fumes, but all were discharged from a local hospital after treatment. This is the third SASOL accident in the past three months. The union, Solidarity, has raised concerns about SASOL safety procedures, particularly when outside contractors are brought in for maintenance and repair jobs. SASOL has appointed U.S. company Du Pont to audit plant safety and procedures.

INFRASTRUCTURE

Kumba and Transnet Sign HOA

On January 26, Transnet, the state-owned transport company, and mining company Kumba Resources jointly announced that they had signed what amounts to a `quid pro quo' Heads of Agreement (HOA). The agreement provides for a capacity expansion of the OREX iron ore rail line from the Northern Cape through the Sishen-Saldanha export channel, and for the conversion of the existing U.S. dollar-based contract to a rand-based one. The respective boards plan to approve the definitive agreement during the first quarter of this year. The Sishen-Saldanha export channel currently transports about 23 million tons of iron ore a year. Kumba would like to increase the capacity to 29 million tons now and to 41 million tons by 2008. According to the HOA, Transnet agrees to increase the line's capacity by at least 10 million tons to meet Kumba's expansion schedule.
FRAZER